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Trans-Caspian Gas Pipeline Facing Growing Challenges

Summary

Although Turkmenistan took a major step forward with the May signing of the gas purchase agreement with Turkey, the Trans-Caspian Gas Pipeline (TCP) project is facing serious challenges.

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- Azerbaijan's recent positive reassessment of its gas potential presents the newest competition to the TCP as Azerbaijan looks to export its gas to Turkey. Azerbaijani officials have said that Baku will block the TCP if the project does not leave substantial room for Azerbaijani gas.
- Financing for the Russian Blue Stream project is moving forward and Gazprom's Italian partner, ENI, expects to finalize financing by August. ENI anticipates that the project will be onstream by the end of 2001, putting it well ahead of the TCP.
- Iran also is positioning itself to double its contracted gas supplies to Turkey if it is able to free sufficient gas for export.

[redacted] These characteristics will continue to complicate and could even derail Ashgabat's cooperation with other TCP players:

- [redacted] PSG informed Niyazov that netbacks to Ashgabat will be less than originally specified went surprisingly well. Niyazov, nevertheless, made some financing and timing demands of PSG that the company says it will not be able to meet.
- *Collapse of the TCP would bring Iran back into the picture to either transport Turkmen gas—thereby bringing Turkmenistan closer to Iran—or supply more Iranian gas to Turkey as Ankara looks to reduce dependence on Russian gas.*

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Azerbaijan Targeting the Turkish Gas Market []

Azerbaijan's state oil company (SOCAR) vice president for foreign investment, Aleskerov, has begun a new initiative to capture a significant part of the Turkish gas market for the Azerbaijanis. Industry experts suggest that Azerbaijan could have 10 billion cubic meters per year (bcm/yr) available for export by 2004, []

[] Gas volumes that could be available for export are likely to grow substantially in later years, given Azerbaijan's latest positive reassessment of its gas potential:

- []
- Aleskerov [] a TCP project that did not leave substantial room for Azerbaijani gas is unacceptable and could lead Baku to block the TCP. []

Furthermore, Conoco is promoting a strategy to pursue development of an independent pipeline to move gas by 2004 from Azerbaijan's shallow water Guneshli oilfield to Turkey. Conoco has bid with SOCAR for development rights to the field, which is rich in associated gas. Turkey's Botas and Conoco signed a protocol agreement on 11 May to examine an export pipeline for this project. []

Russia Angles To Preempt the TCP []

Although Azerbaijan's export ambitions pose the most immediate hurdle for the TCP, Russia's Blue Stream looms as the greatest threat to the project's economic viability and ability to gain financing. Financing for Blue Stream is moving forward, []

Russia has been pressuring Georgia to facilitate a Gazprom gas pipeline to Turkey to fend off threats to Russian dominance of the Turkish gas market. This has alarmed both Georgian and Azerbaijani government officials, []

This report was prepared by [] Office of Transnational Issues/
[] and [] Office of Russian and European Analysis/
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- Georgian President Shevardnadze has expressed his readiness to support the TCP, but judges that quick implementation of the project is essential. [redacted] Tbilisi is walking a tightrope between its desire to support a Caspian export route and Georgia's dependence on Russia for its natural gas.
- Azerbaijan's Aleskerov is convinced that Gazprom and its marketing subsidiary, Itera, are heavily lobbying Washington to support this route in order to keep the bulk of the Turkish gas market for itself by preempting the TCP, [redacted]

Russia's apparent interest in promoting a Russian-Georgian-Turkish gasline may be primarily intended to disrupt movement toward a TCP. In any case, we do not believe that the moves signal any weakening in Gazprom's commitment in Blue Stream. [redacted]

The Iranian Export Option [redacted]

Turkmenistan's Niyazov raises the "Iran card"—gas exports through Iran to Turkey—whenever TCP progress slows or fails to move in a direction he prefers. Most likely Niyazov is not prepared to abandon the TCP at this time, and these threats are probably more rhetorical than real. The Iranian route, nevertheless, remains an economically feasible alternative should the TCP fall through:

- The Iran-Turkey gas pipeline almost certainly will be ready for Iranian gas deliveries of 3 bcm/yr to Turkey by the end of 1999 and Iran could meet the contracted amount of 10 bcm/yr by the end of 2000. [redacted]

- The spare capacity could be used by Ashgabat in a swap agreement, in which Turkmenistan supplies northern Iranian markets with Turkmen gas, thus freeing Iranian gas for export to Turkey. [redacted]

Problems in Ashgabat [redacted]

Niyazov's view of the world is so decidedly Turkmenistan-centric that it is likely to continue to complicate and possibly derail Ashgabat's cooperation with the other TCP players. [redacted]

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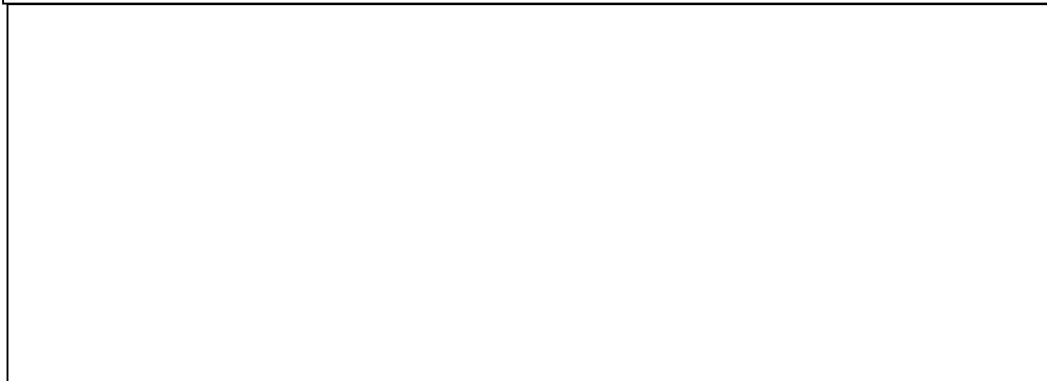


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Meanwhile, the Israeli firm Merhav—to which Niyazov earlier had assigned supervisory control of Turkmenistan's role in the TCP—has angered Niyazov over a payment issue. Niyazov [redacted] removed Merhav from any role in the TCP project, [redacted]



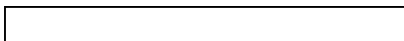
Royal Dutch, Shell Wants In [redacted]

Royal Dutch Shell is actively considering substantial involvement with PSG in developing the TCP and would probably try to use its participation to gain greater access to upstream development in Turkmenistan, but its ambitions could also complicate and delay realization of the TCP:

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- Because it has a strategic partnership with Gazprom, Shell probably believes that it can arrange a favorable transport scheme for Turkmenistan. [redacted]



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[] Shell had informed Turkey that the TCP project is financially viable only if the first phase makes Turkmenistan gas deliveries to Turkey via the Russian pipeline network. [] told Shell that the TCP project should not be integrated with Russia. Turkey probably is concerned because its key goal of diversification away from Russian gas could be substantially delayed by Shell's maneuvers. []

Outlook []

The TCP is clearly at a critical stage with the growing twin threats from Russia's Blue Stream and Azerbaijan's own gas. Several companies interested in developing and exporting gas from the Caspian region also have the potential to complicate and delay the project:

- Ashgabat most likely will lose its chance to supply the Turkish market to other potential suppliers unless it finds a way to accommodate Azerbaijan in the TCP project.
- A major risk for the United States if the TCP were to fall through is that Iran could gain a larger foothold in the Turkish gas market—either as a transit state for Turkmenistan gas or as a supplier itself—as Turkey reaches to meet its need to diversify from Russian gas. []

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